

MBAYNIKC

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF NEW YORK

-----x

3 NIKE, INC,

4 Plaintiff,

5 v.

22 Civ. 983 (VEC) (SN)

6 STOCKX LLC,

7 Defendant.

8 -----x

New York, N.Y.
November 10, 2022
10:45 a.m.

10 Before:

11 HON. VALERIE E. CAPRONI,

12 District Judge

13 APPEARANCES

14 DLA PIPER LLP

15 Attorneys for Plaintiff

16 BY: MARC E. MILLER

17 TAMAR Y. DUVDEVANI

GABRIELLE VELKES

18 DEBEVOISE & PLIMPTON LLP

19 Attorneys for Defendant

20 BY: MEGAN KATHLEEN BANNIGAN

KATHRYN CAMPBELL SABA

21 HANNAH BEATTIE

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1 (Case called)

2 THE DEPUTY CLERK: Counsel, please state your
3 appearance for the record.

4 MR. MILLER: Good morning, your Honor. Marc miller on
5 behalf of Plaintiff Nike.

6 THE COURT: Good morning, Mr. Miller.

7 MS. DUVDEVANI: Good morning, your Honor. Tamara
8 Duvdevani.

9 THE COURT: Good morning, Ms. Duvdevani.

10 MS. VELKES: And Gabrielle Velkes.

11 THE COURT: Good morning, Ms. Vehicles. The front
12 table can sit down.

13 MS. BANNIGAN: Good morning, your Honor. Megan
14 Bannigan on behalf of Stockx.

15 THE COURT: Good morning, Ms. Bannigan.

16 MS. SABA: Kathryn Saba also on behalf of Stockx.

17 THE COURT: Good morning, Ms. Saba. You have to talk
18 up. If you want to be a litigator, you have to speak up nice
19 and loud.

20 MS. BEATTIE: Hannah Beattie, also on behalf of
21 Stockx.

22 THE COURT: Good morning, Ms. Beattie. Please be
23 seated.

24 So I brought you in because, having reviewed the
25 documents, I was left with the following two questions: To

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1 Nike, I don't get it; and to Stockx, I don't get it.

2 I don't understand why you're in a swivet but you
3 can't show it to your clients.

4 And, Nike, I really don't understand the redaction. I
5 don't understand why that material is highly confidential,
6 outside attorneys' eyes only.

7 So who's going to answer? Mr. Miller?

8 MR. MILLER: Yes, your Honor. I'd be happy to address
9 your question. I think the context here is important.

10 THE COURT: I get it that they are counterfeiters and
11 you can't trust them as far as you could throw them.

12 MR. MILLER: Yes, your Honor. The reason why that
13 document, in particular, was designated as outside counsel eyes
14 only is because Nike made test purchases.

15 THE COURT: That's not a secret. It's not a secret
16 that Nike makes test purchases. Correct me if I'm wrong. All
17 you have to do is look at the docket of the court and know that
18 people who are policing their trademarks are making test
19 purchases.

20 MR. MILLER: Sure. That's correct, your Honor. The
21 particular test purchase that was done here, the information on
22 the label shows the number of the test purchase in the series
23 that was done and the timeframe. So the reason why --

24 THE COURT: So that gives a sense of approximately how
25 many test purchases are being made.

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1 MR. MILLER: Yes. It's a piece of the larger puzzle,
2 the mosaic that your Honor mentioned on the phone call last
3 week. What our concern was, when we looked at those very
4 carefully -- and we looked at every document that we produced
5 with four members of our team.

6 And we thought very carefully about what pieces of
7 information we could safely share with Stockx or keep to their
8 outside counsel eyes only in order to essentially keep the
9 larger piece of the puzzle closely safeguarded.

10 Your Honor, our concern was that if Stockx employees
11 could see more information about the pieces of the puzzle, they
12 could piece together information about Nike's test purchases
13 and who was making them on their platform.

14 THE COURT: How does this show who was making them?

15 MR. MILLER: Well, this one particular document does
16 not in and of itself. But once we start opening the door and
17 letting out more pieces, the puzzle becomes easier to put
18 together.

19 THE COURT: You're talking in platitudes. That is the
20 mosaic theory, that if you let out little pieces, you can put
21 the whole thing together.

22 MR. MILLER: This says that there were a number of
23 test purchases. I'm not clear during what timeframe. I'm not
24 clear who made them. And at least some of them were made in
25 January of this year. Right?

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1 I am just lost as to why, again, recognizing, as I
2 say, that every counterfeiter knows that there are test
3 purchases being made and anybody who works in this area of the
4 law knows that test purchases are made. And generally, they're
5 not being made under real names.

6 So help me understand what you're really protecting
7 here, other than the answer is maybe this is a tiny little
8 piece. And, you know, what, in truth, if you lose on this
9 little piece, it doesn't matter.

10 MR. MILLER: Yes, your Honor. This is a tiny little
11 piece. And perhaps you're right that on this one individual
12 document, that may be true. But if there are more pieces that
13 come together, our concern is that Stockx will be able to
14 identify, by looking at the bigger picture and seeing all of
15 the different purchases that are made, the strategy that's
16 used, how many of each style, what sizes, when and look and see
17 and put all those pieces together to form the picture and
18 essentially try to evade or hinder the test purchases. Right?

19 THE COURT: I don't know how you do that. Even if you
20 know that there are test purchases being made and that they're
21 being made of size X, which I presume varies from product to
22 product maybe. I don't know what they're selling.

23 MR. MILLER: These are all sneakers, your Honor.

24 THE COURT: These were all the same size, but you
25 didn't block off the size.

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1 MR. MILLER: That's right. In our proposed
2 redactions, we are not proposing to redact the label that
3 appears on the original goods.

4 THE COURT: Are these counterfeit goods?

5 MR. MILLER: That one was confirmed to be a
6 counterfeit, your Honor.

7 THE COURT: So I'm no closer to understanding.

8 Ms. Bannigan, now the attention shifts to you. I
9 don't understand in a million years why, in order to adequately
10 represent your client, you need to provide the information to
11 the client of the information that Nike has indicated is
12 outside counsel's eyes only.

13 MS. BANNIGAN: Thank you, your Honor.

14 Stockx has been having an unusual and surprisingly
15 difficult time nailing down what the allegations in the
16 complaint are. Nike amended the complaint and said that they
17 conducted an investigation.

18 Through this investigation, they identified four
19 counterfeits. Those are the allegations in the complaint. We
20 served an interrogatory asking that they identify the
21 counterfeits shoes that they identified.

22 They referred to a document. We actually had to go
23 back and forth with them and spent an exceedingly -- spending a
24 large amount of time and a lot of money getting them to simply
25 put the Bates numbers of the documents they're referring to.

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1 The Bates numbers that they're referring to, there
2 aren't that many of them. And several of them are these
3 documents denying that was raised that are highly confidential,
4 outside counsel's eyes only.

5 We need this information to do an investigation.
6 Stockx takes very seriously these counterfeiting allegations.
7 We disagree that Stockx is a counterfeiter, and we need to
8 investigate them to be able to fully put together our defenses.

9 THE COURT: Understood. So how does the information
10 on the white tag advance that?

11 MS. BANNIGAN: So the information on the white tag --
12 it includes a purchase date, which we need --

13 THE COURT: No, it doesn't. It includes a purchase
14 month.

15 MS. BANNIGAN: Well, it includes a timeframe. We
16 don't have a purchase date, but the best that we have --

17 THE COURT: It's a month. I assume you sold literally
18 thousands of items during the month of January.

19 MS. BANNIGAN: Well, it at least narrows it down, your
20 Honor, and gives us something. It includes the numerosity, how
21 many they purchased. Nike is accusing us of being willful
22 infringers. It matters how many they purchased and how many
23 they found.

24 Now, the other thing I note --

25 THE COURT: I'm sorry. Why?

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1 Why does it matter how many they purchased and how
2 many they found?

3 MS. BANNIGAN: Well, there's an argument -- I believe
4 Nike's argument is that Stockx is knowingly selling or allowing
5 counterfeit shoes to be sold on its platform. That's
6 absolutely not the case. Stockx tries very hard to not allow
7 any counterfeiters' shoes to get through.

8 THE COURT: I remember this involves non-fungible
9 tokens which I thought were done. I thought we were done with
10 them. But my law clerk tells me no; that at least boys in
11 college still think they're important.

12 So you are selling -- you are a marketplace for people
13 who collect Nike shoes, all kinds of shoes, all kinds of
14 things?

15 MS. BANNIGAN: Yes, your Honor. All kinds of things.
16 It's a marketplace for collectible goods where individuals can
17 buy and trade goods that they believe hold value.

18 THE COURT: So you're like an Ebay?

19 MS. BANNIGAN: Or a third-party marketplace in the way
20 that Ebay is a third-party marketplace, but there are obvious
21 differences from Ebay.

22 THE COURT: I'm not an Ebay person. So I wasn't
23 intending to diss you with that.

24 MS. BANNIGAN: Yes, your Honor.

25 THE COURT: So you are in the middle. People are

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1 posting goods on your site, and you are the in-between to make
2 the deal go. Nike says you're knowingly allowing counterfeits
3 to be sold on your site.

4 Now continue. I sort of interrupted your flow.

5 MS. BANNIGAN: Thank you, your Honor.

6 So the number of counterfeits that got through based
7 on how many were tests, that's going to be important. But this
8 is a broader issue of allowing us to know that has been
9 identified.

10 We had sent over to Nike nine documents. We, frankly,
11 thought they were mistakes; that they were just misdesignated.
12 That happens sometimes. We were very surprised when they dug
13 in and said that this is the most sensitive trade secret
14 information.

15 The burden, frankly, is on Nike to show why they would
16 be harmed if we have this information. They have not done
17 practice. The sample that they gave you -- they gave you a
18 sample of the shoeboxes.

19 But the documents being identified are actually more.
20 There are pictures of the actual shoe. There are tracking
21 numbers to show that would help us figure out when these were
22 purchased and the dates that they were shipped. I have copies
23 of the documents.

24 THE COURT: Why do you need to know the dates they
25 were purchased by Nike or by Nike's investigators?

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1 MS. BANNIGAN: So Stockx can do an investigation to
2 see where did these shoes come from. Did they go Stockx's
3 authentication process. Did somebody from Stockx look at them
4 to determine are there any signs of counterfeiting. There's a
5 lot that goes into Stockx's process to try to prevent
6 counterfeits.

7 THE COURT: Isn't that going to be derived from the
8 bar code?

9 Again, I'm not trying to be difficult. I just
10 don't -- it's like you are in a pitched battle over something
11 where I don't see either side's position.

12 MS. BANNIGAN: I understand, your Honor. It's part of
13 a broader issue for Stockx that it has just been so difficult
14 to get any information from Nike about these shoes.

15 We are concerned about -- we've raised concerns that
16 these are just a sample of documents. We thought these were
17 the easy sample that we raised. We do not want to be here
18 before your Honor bothering the Court with these disputes.

19 We are going to have several more disputes over
20 information. We have several pending, not about just
21 designations but about information at all.

22 And it's about setting a standard that's in the
23 protective order and abiding by that standard as to what types
24 of information has to be turned over. We're very
25 concerned that -- we highly negotiated this protective order.

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1 It actually took weeks to negotiate because there is a
2 difference of opinion as to whether there should be an
3 outside-counsel-only level at all. We compromised because we
4 didn't want to burden the Court with that position.

5 But it was under the understanding that we would have
6 that level of confidentiality that it would seriously be trade
7 secret or the most sensitive commercial information that is
8 being designated. We just don't understand how Nike has met
9 their burden to designate this.

10 But I hear your Honor. We do not want to burden the
11 Court with disputes of this nature going forward.

12 THE COURT: I don't want to be burdened with disputes
13 of this nature going forward.

14 Mr. Miller, did you want to add anything?

15 MS. DUVDEVANI: If I may respond to that, your Honor.

16 THE COURT: Sure.

17 MS. DUVDEVANI: Our complaint allegations when we
18 amended -- and you're right. This case started off over
19 non-fungible tokens. And then after we filed, we saw indeed
20 Nike shopped the market. It is not a secret that brands like
21 Nike shop a market. What is not known is the volume, the
22 length of time, etc.

23 So, as Mr. Miller said, when we saw this whole piece
24 of the puzzle, everything that we did to investigate
25 counterfeiting activity on the Stockx platform, we looked at it

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1 holistically. And then we had the difficult position to figure
2 out which piece of the puzzles that we could de-designate and
3 which would be kept as outside counsel's eyes only.

4 And in all honesty, your Honor, when we had to make
5 the judgment calls, we did err on the side of caution, given
6 the importance of the anti-counterfeiting initiatives that are
7 really Nike's most prized possessions to prevent
8 counterfeiting.

9 They work with intelligence organizations on this.
10 There is a very, very small subset of individuals at Nike that
11 even understands how this is done.

12 THE COURT: How it's done is something more than
13 making test purchases and figuring out whether they're
14 counterfeits?

15 MS. DUVDEVANI: Well, it's the figuring out whether or
16 not they're counterfeit that tends to be the really, really
17 secret information that nobody knows.

18 THE COURT: That I get. If this was telling me how
19 Nike can tell the difference between a really good counterfeit
20 and a real pair of Nike shoes, I'm there.

21 MS. DUVDEVANI: This, in and of itself, does not. But
22 what it does provide to somebody who is accused of
23 counterfeiting is the fact that there is a volume being shopped
24 in the same period of time.

25 We don't know Stockx's systems. We don't know what we

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1 can decipher. But I can represent to your Honor that these
2 test purchases were all made with the same alias to the same
3 P.O. box with the same credit card.

4 So once we start breaking it down and giving them more
5 pieces of the puzzle, they are potentially able to decipher
6 that. When they see these volume of purchases going through,
7 they can do things like block the sale, which they do sometimes
8 because everything goes through the authentication process,
9 according to the Stockx platform.

10 Maybe they'll say, sorry. You're not going to get
11 your product because it failed verification if they think it is
12 a right holder who is trying to make these purchases. That is
13 why we designated these.

14 I will also say, your Honor, that when Stockx came to
15 Nike with this dispute, we almost immediately tried to offer
16 this compromise, as in somewhat robotic fashion --

17 THE COURT: I'm sorry. What compromise?

18 MS. DUVDEVANI: Of redaction. We would redact just
19 the label that the investigator put in. We will give you the
20 rest of the imagery. They would not even respond to the
21 proposal.

22 THE COURT: Okay. Again, I kind of don't want to get
23 into that, we said this. They said that. They didn't get back
24 to us. I'm more concerned about sort of the Uber issue of is
25 this material and is this consistent with the decisions you

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1 were making.

2 These do not say that they were all made from the same
3 credit card with the same alias. That may be evidence from
4 other documents that tie in to these.

5 Is that what you're telling me?

6 MS. DUVDEVANI: Yes. If you look at the larger piece
7 of the puzzle, yes. I think that they could decipher that,
8 your Honor. Yes. I don't know how their systems work. That's
9 my point. If they know -- for example, one of the labels said
10 purchased --

11 THE COURT: I'm sorry. Just to interrupt.

12 The number of the purchases and the date does not tell
13 them that they're all made with the same credit card from the
14 same alias. It doesn't even necessarily tell you that like
15 these were made -- number 1112 was made in January, but it's
16 unclear whether 1 to 1111 were also made in January or whether
17 they were made in December, November, or October.

18 MS. DUVDEVANI: I agree with that, your Honor. That
19 is true. Our concern, when we were scrutinizing as to what to
20 designate as outside counsel's eyes only -- again, Stockx's
21 outside counsel received all of this documentation.

22 We disagree that we weren't being transparent. Stockx
23 knows that we pointed them to the four counterfeits. We know
24 that since this case began, we've identified almost a hundred
25 other pairs that Stockx has sold to downstream consumers, and

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1 they know every single one of the pairs. I don't know why
2 they're saying that they don't.

3 THE COURT: But that's out of how many test purchases?

4 MS. DUVDEVANI: Well, the test purchases are besides
5 that. Nike found four through their own test purchases in a
6 two-month period, which is certainly --

7 THE COURT: Out of how many shoes did they sell?

8 MS. BANNIGAN: I think a hundred. I don't know
9 offhand, but that's basically 4 percent. They say they have a
10 hundred percent guaranteed authenticity. So right there, there
11 are four that went through. When you think about the volume of
12 Nike shoes --And Ms. Bannigan is right. They sell a lot of
13 other products.

14 The vast majority of Stockx products that are being
15 sold are Nike and Jordan shoes. That's how the company was
16 founded. That is how they make the vast majority of their
17 money.

18 Nike was very alarmed by that number. And as I noted,
19 in May and June alone, we found one consumer who was sold 37
20 pairs of fake Jordans through the Stockx website. And they
21 know because we approached Stockx immediately once we reached
22 out to that consumer.

23 We acknowledge, your Honor, that we are being
24 overcautious with this information, which is why, when Stockx
25 approached us, we immediately said we would redact the label

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1 and allow their folks to see the box, to the extent that gives
2 them information.

3 They haven't requested a notice to inspection the
4 shoes. They could of course always do that. We would make
5 them accessible. I'm not sure what they would glean from it.
6 I know Ms. Bannigan noted that they wanted to see if the shoes
7 went through the authentication process. But they claim every
8 shoe goes through an authentication process.

9 THE COURT: Understood.

10 MS. DUVDEVANI: Another thing I want to say, your
11 Honor -- and I do not want you to do a pox on both of our
12 houses if we did.

13 THE COURT: You are so close to a pox on both of your
14 houses.

15 MS. DUVDEVANI: But I'm not going to show you Stockx's
16 documents today, and I'm just going to keep my mouth shut. It
17 really is a very important protective order. Going forward, we
18 will try to be more discerning about what we designate.

19 Again, if Stockx raises disputes, we will offer
20 immediate compromises. But we do think that the probation is
21 very important for Nike.

22 THE COURT: I don't quarrel with the notion that
23 attorneys' eyes only serves useful purposes during discovery.
24 What I ask you to do is to work together cooperatively and
25 collegially.

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1 To the extent this is a good example of the sort of
2 disputes, you have my reaction. I don't think either position
3 made a lot of sense to me. I get the mosaic. I just don't get
4 it on these particular materials, and I continue to not
5 understand why Stockx needed to see the labels.

6 So if you've got legitimate issues that you really
7 can't work out, you always have the Court available to you.
8 But I don't have a lot of tolerance for these sorts of disputes
9 where a neutral third party doesn't see either position.

10 That is not a good place for either of you to be in.
11 So there is not a pox on both of your houses. I still love you
12 all dearly. You can all come back any time you want to, but
13 try to work this out.

14 All of that said, where are we in the discovery of
15 this case?

16 MS. DUVDEVANI: Yes, your Honor. So substantial
17 completion of document discovery is done. Nike has other
18 smaller productions to make. Stockx may say the same.

19 Depositions are all being calendared right now. It's
20 going to be a very busy holiday season for us. But we are
21 working very hard to get dates for every single witness that's
22 been put on initial disclosures or that the parties need.

23 Whether or not we might beg for an extra week at the
24 end of January to finish some depositions up, as some of Nike's
25 witnesses in particular are overseas, may be the case. But we

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1 took your Honor very serious when you said good cause at this
2 point, if we need more time.

3 (Continued on next page)

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1 THE COURT: Look. Obviously if you have got, there
2 are people that can't be rescheduled, that's fine. I can duly
3 adjust schedules for that. So, it sounds like -- but you
4 should be done with your fact discovery early next year.

5 MS. DUVDEVANI: That is what we are aiming towards,
6 and so far, again, it will be a very busy holiday season but
7 that's what we are working towards, your Honor.

8 THE COURT: Are the parties interested in a settlement
9 conference?

10 MS. DUVDEVANI: We did have a settlement conference
11 before Judge Netburn. She tried very hard to bring the parties
12 together. We have had follow-up telephonic communications with
13 her and written communications. Right now they're a bit at a
14 standstill, but certainly if we think there is more room for
15 compromise I have no problem calling Megan and letting her know
16 that.

17 THE COURT: You have an open referral.

18 Ms. Bannigan, do you agree we are coming to the end of
19 the discovery period?

20 MS. BANNIGAN: Yes, your Honor.

21 I think the parties still have some issues to work out
22 but we are trying very hard to work those out without Court
23 intervention. We will take the Court's comments today about
24 working these out very seriously. I will say I am still
25 personally a little perplexed about how what we are going to do

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1 about these pictures and whether I can show them to my client
2 and how Nike thinks that it is going to keep -- if Nike intends
3 to rely on these shoes that an investigator purchased of
4 evidence of counterfeits at trial, how they are going to do
5 that without naming the investigator or authenticating it or
6 how -- but as long as we can work together and Stockx can get
7 the information so we can identify these shoes so we can do a
8 full investigation, we are of course willing to work with Nike
9 but we haven't been able to get that information yet. But we
10 will go back to them to work on this.

11 THE COURT: OK. Look they obviously need that
12 information, they're going to need to do that so that they
13 defend the case by showing, presumably, that they have got
14 reasonable processes in place and sometimes things get through
15 but their processes are good, but I don't know how they show
16 that unless they know what fell through the cracks. So try to
17 work these things out between you.

18 I will see you again after fact discovery is complete.
19 I presume there is going to need to be expert discovery in this
20 case?

21 MS. DUVDEVANI: Yes, your Honor. There will be a lot
22 of experts during the expert discovery period in the case.

23 THE COURT: Are NFTs now done? The whole issue with
24 the NFTs is a moot point.

25 MS. DUVDEVANI: No, your Honor. NFTs are still a

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1 large component of this case. At this point I would say there
2 is three buckets: There is trademark infringement relating to
3 the NFTs, there is counterfeiting, and there is associated
4 false advertising relating to the counterfeiting.

5 THE COURT: Great. OK. All right. Everybody have a
6 wonderful holiday and I will see you early next year.

7 MS. DUVDEVANI: Thank you, your Honor.

8 MS. BANNIGAN: Thank you, your Honor.

9 THE COURT: Thank you.

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